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Sit Invest's Bryce Doty: 'Everyone Wins' When Closed-End Funds are Transparent

Efforts to eliminate annual meetings for closed-end funds (CEFs) and to discourage shareholders from voting are not only unamerican, but they can also lead to less liquidity and opportunity, says Bryce Doty, senior portfolio manager at Sit Investment Associates.

Many such efforts, led by the Investment Company Institute (ICI) and the New York Stock Exchange, reflect a lingering malaise from 2022 that contributes to an unhelpful "victim-like mentality" and that fails to account for the new era of "healing" the industry is experiencing now, Doty told Chuck Jaffe on the Money Life podcast on January 21, 2025.

The ICI's assessment of the 2022 CEF market showed weakened demand and a drop in total assets that year, brought on by sharp downturns in both equity and bond markets.

"I think some of these [ICI] money managers actually felt guilty about hurting so many investors during that terrible period," Doty said. "It's natural for them to be defensive … but now is the opportunity to make things more transparent" as rates come down and as bonds begin to look "better and better," he added.

For example, instead of reporting once a year, CEFs "should do it twice … or four times a year," he added. Trying to make it so shareholders can't vote is "exactly the opposite of what you do" to maintain a well-functioning market, Doty said.

Record Levels of Activism

These and other issues surrounding activism in CEFs were covered in depth at the Active Investment Company Alliance's 2024 Fall Roundtable.

As markets change and potentially become more volatile, CEF discounts can widen considerably. When they stay wide for long lengths of time, activist investors — typically hedge funds or institutional investors — buy large stakes in CEFs and try to influence how they are run. Their efforts have had mixed results and have prompted a flurry of lawsuits.

To some, activists are a one-note nuisance only interested in profit. Critics believe the zeal with which they target CEFs has contributed to the dearth of new offerings in recent years. Others, like Doty, say they bring much-needed accountability and vitality to the industry.

Law firm Morris Kandinov has a running tracker of CEF legal challenges and other issues. Sit Investment recently published a 2024 report (PDF) on activism in CEFs, concluding that activism in the space "has reached heights that we have never seen."

"The number of funds being acquired by known activists, the number of activist and follower firms participating, and the size of positions [held] by activists are all at unprecedented levels," the report states. "This elevated level of activism has created a record number of opportunities for investors" to capitalize on "shareholder-friendly" initiatives such as "increased distributions, tender offers, and open-end conversions."

The report calls control share provisions that restrict shareholders' voting rights "illegal."

"The more transparency, the more liquidity, the more activity that we have … everyone wins," Doty said on the podcast. "Otherwise, the consumer gets stuck in the middle."

A Landmark Settlement

Sometimes activists and their targets reach peaceable agreements that bear shareholder-friendly fruit. Such was the case late last month when activist firm Saba Capital Management and BlackRock reached a landmark deal. The deal requires Saba to drop its demands for "deep" management overhauls of multiple BlackRock CEFs and requires the asset manager to provide shareholders with roughly $1.6 billion in tender offers — "more than has ever been available to investors," Reuters reported on January 21.

Saba noted the "constructive negotiations" that led to the deal in a January 21 statement.

Resources

- Learn more about Bryce Doty and Sit Investment.
- Listen to the Money Life with Chuck Jaffe podcast from January 21, 2025.

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